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SUBJECT: SINGAPORE SEES SHARP DECLINE IN GDP, LOOSENS MONETARY POLICY

¶1. (U) Summary: The Singapore government announced April 14 that first quarter GDP growth was 11.5 percent lower than the first quarter of 2008, the sharpest fall in GDP on record. The steep drop is attributed to the collapse in global trade demand which has dramatically reduced economic activity in the manufacturing and services sectors. The same day, the Monetary Authority of Singapore (MAS), Singapore's central bank, loosened monetary policy by a one-off depreciation of the Singapore dollar, but set a less aggressive future path than anticipated. Future moves to support the economy will likely come from the fiscal side. In the only positive news of the day, exports declined more slowly than expected and analysts foresee less weak export and industrial production figures in future quarters. End Summary.

## Sharpest Drop In GDP Since The 1970s

¶2. (U) Singapore's Ministry of Trade and Industry (MTI) released GDP estimates for the first quarter of 2009, computed largely from January and February data, showing Singapore experiencing its sharpest decline on record (since quarterly statistics began to be recorded in 1975) both in year-on-year (yoy) and seasonally adjusted annualized terms. The MTI calculated that GDP shrank by 11.5 percent yoy in the first quarter. On a quarter-on-quarter seasonally adjusted annualized basis, the first quarter's 19.7 percent fall in GDP is even worse than the 16.4 percent contraction in the fourth quarter of 2008.

¶3. (U) The contraction in first quarter GDP was more than double market expectations. Analysts said the downside surprise came from a continued broad-based slowdown in manufacturing and services, both of which were dragged down by the collapse in world trade. The fall-off in global export demand was reflected in the continued contraction in non-oil domestic exports of 24.5 percent in March compared to the same month last year. Manufacturing declined by 29 percent in the first quarter compared to the previous quarter, significantly lower than the contraction of 4.1 percent in the fourth quarter of 2008. The services sector was down 5.9 percent, with wholesale and retail, transport and storage, and hotel and restaurant services particularly hard hit. The latter has suffered from a falloff in tourist arrivals.

## 2009 GDP Growth Forecasts Revised Downwards

¶4. (SBU) Looking ahead, MTI warned that despite some tentative signs of economic stabilization in the United States, officials do not yet see a clear turnaround in economic activity. Similarly, in its Monetary Policy Statement, MAS predicted that economic growth will remain below potential until its major trading partners show definitive signs of recovery. In light of this sharp deterioration in GDP in the first quarter, the government lowered its 2009 GDP forecast to a range of negative nine to negative six percent from negative five to negative two percent previously. Some market

participants similarly revised downwards their real GDP growth forecasts (see Table 1 below).

Table 1. Singapore's Real GDP Growth Forecasts

| (Percent) | 2009 Old Forecast | 2009 New Forecast |
|---|---|---|
| Government | -5.0 to -2.0 | -9.0 to -6.0 |
| DBS | -4.8 | -7.7 |
| Goldman Sachs | -8.0 | no change |
| HSBC | -7.0 | no change |
| JP Morgan | -4.5 | -7.5 |
| Morgan Stanley | -6.0 | -10.0 |
| OCBC | -4.8 | -7.6 |
| Standard Chartered | -3.9 | -7.5 |
| UBS | -5.0 | -6.5 |
| UOB | -4.0 | -7.5 |

Source: Ministry of Trade & Industry, various bank reports

¶5. (U) Although GDP growth estimates were substantially worse than expected, analysts were heartened by better than expected export figures for March, which showed an eleven percent month-on-month increase in non-oil domestic exports, even if the figures are still significantly below their levels from a year ago. Citigroup analysts said the month-on-month increases in exports in February and March together with improvement in other leading indicators gave confidence that free-falling exports had bottomed out during the first quarter. With stabilization in exports and industrial production, analysts believe that the first quarter will be the trough of GDP contraction. Nevertheless, year-on-year growth



figures for at least the next two quarters will likely also be in the red, but at a slower pace of contraction.

## MAS Loosens Monetary Policy, But By Less Than Expected

¶6. (SBU) Also on April 14, the MAS announced it would loosen monetary policy with a small one-off devaluation of the Singapore dollar against a trade-weighted basket of currencies. (The MAS uses the exchange rate as its primary tool for monetary policy, rather than the interest rate as in most countries.) However, the MAS tempered expectations about future depreciation by maintaining a neutral path for the currency going forward (i.e. signaling no depreciation or appreciation of the Singapore dollar compared to its trading partners' currencies). Analysts had expected a sharper devaluation and a commitment to depreciating the currency in the future, but MAS said in its report that the local economy's fundamentals remained sound and saw "no reason for any undue weakening of the Singapore dollar." In fact, after the MAS announcement of a one-off devaluation, the currency strengthened by nearly one percent compared to the U.S. dollar, reflecting the market's surprise at the MAS's less-than-aggressive response.

¶7. (SBU) A depreciation of the currency would typically spark concerns of inflation as imported goods become more expensive, but MAS expects inflation to moderate further in the coming months on the back of lower commodity prices and the weak prospects for growth. The MAS kept its inflation forecast unchanged at negative one percent to zero percent for 2009. Analysts reckon that the move by the MAS is expected to result in a modest 1.0 to 1.5 percent depreciation of the trade-weighted currency from the current level. The devaluation of the Singapore dollar may give a mild boost to Singapore exports and thereby the economy at large. However, according to JP Morgan, the depreciation appears to be aimed more at stabilizing domestic prices than addressing the collapse in global demand.

## Comment

¶8. (SBU) MAS's Monetary Policy Statement was unexpectedly dovish, with MAS saying the economy had "sound fundamentals" and seeing no

need for an "undue weakening" of the Singapore dollar. Unless economic conditions deteriorate further, the MAS will likely maintain this neutral policy stance at its next Monetary Policy meeting in October 2009. Any future GOS moves to support economic growth are likely to come from the fiscal policy side.

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